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**Our People  
Make the  
Difference!**

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NEWFOUNDLAND  
**POWER**  
A FORTIS COMPANY

**2000 Annual Report**



# Corporate Profile

Newfoundland Power operates an integrated generation, transmission and distribution system throughout the island of Newfoundland. With a workforce of about 650 employees, the Company serves approximately 215,000 customers in 600 communities across Newfoundland. These customers constitute 85 per cent of all electrical consumers in the province. The balance of the population is served by Newfoundland and Labrador Hydro ("Hydro"), a Crown corporation that also serves several large industrial customers in Newfoundland.

Newfoundland Power generates approximately nine per cent of its energy needs from 23 hydroelectric, five diesel and three gas turbine plants. These units have a total installed capacity of approximately 150 megawatts ("MW"). The balance of energy required by Newfoundland Power is purchased from Hydro.

All of the common shares of Newfoundland Power are owned by Fortis Inc., a diversified holding company whose assets are valued at more than \$1.4 billion. Newfoundland Power's first preference shares series A, B and D are listed on the Montreal Exchange.

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## Our Vision ...

Newfoundland Power will be a leader among electrical transmission and distribution companies in North America.

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## Cover

Ed Pennell, Lineperson, St. John's Region, is one of the Company's 650 dedicated employees who continue to provide a high level of customer service 365 days a year through some of the worst weather conditions in North America.

# Financial & Operating Highlights

## Financial Highlights

	2000	1999
Revenue (\$000s)	348,413	342,001
Property, Plant & Equipment (\$000s)	865,406	844,598*
Long-term Debt (\$000s)	280,158	283,208
Common Shareholder's Equity (\$000s)	250,331	242,848
Earnings Applicable to Common Shares (\$000s)	26,473	22,858
Earnings per Common Share (\$)	2.57	2.21

## Operating Highlights

	2000	1999
Customers	215,210	213,641
Installed Generating Capacity (MW)		
Hydroelectric	93.8	94.0
Diesel	6.9	7.4
Gas Turbine	46.9	47.0
Total	147.6	148.4
Peak One-hour Demand (MW)	1,041	1,025
Energy Sales (GWh)	4,555	4,500
Average Annual kWh Used per Residential Customer	14,676	14,588
Operating Cost per Customer (\$)	237	252*
Revenue per Employee (\$)	539,339	492,088

\*Restated to reflect changes in presentation for 2000.

## Comparison of Electrical Rates

Charlottetown, PEI	\$114.53
Halifax, NS	\$112.62
Regina, SK	\$107.16
Fredericton, NB	\$104.08
Toronto, ON	\$102.28
St. John's, NF	\$97.62

Rates as of January 1, 2001. Based on monthly average residential usage of 1,223 kWh per month. Includes basic customer charges and discounts. Excludes all applicable taxes.



## *Letter to Shareholders*

2000 was a successful year for Newfoundland Power. We exceeded our financial targets, reduced operating costs, improved reliability and increased customer satisfaction. These achievements have moved the Company closer to our vision to be a leader among electrical transmission and distribution companies in North America.

Despite limited growth in revenues the Company earned \$26.5 million in 2000, an increase of 16 per cent from 1999. The Company earned \$2.57 per share in 2000 compared to \$2.21 per share in 1999.

In 2000, operating cost per customer was reduced to \$237 from \$252 in 1999. Revenue per employee increased to \$539,339 from \$492,088 in 1999. Since 1991, operating cost per customer has decreased by 20 per cent while revenue per employee has increased by 62 per cent.

The Company has benefited from lower labour costs resulting from the 1999 early retirement program. Also, income tax expense was lowered when the Company resolved a long-standing tax issue with the Canada Customs and Revenue Agency. The interest refund that resulted from this resolution created excess revenue of \$6.6 million and the Company has applied to the Board of Commissioners of Public Utilities of Newfoundland and Labrador ("PUB") to rebate this amount to customers in April, 2001.

In 2000, energy sales increased by 1.2 per cent from 4,500 gigawatt hours ("GWh") in 1999 to 4,555 GWh. This modest growth is indicative of trends in the province's economy that challenge the Company's allocation of capital resources. Over the next five years, energy sales growth is expected to primarily occur in St. John's and the surrounding area with the remainder of the province showing flat or declining energy sales growth. The movement of people from rural areas to urban centers will continue to challenge the Company's resources.

Our continuing success reflects the contributions of our team of 650 dedicated men and women. In 2001, a strategic workforce plan will be developed to align our internal requirements and resources with the future needs of the Company. We will continue to recruit new people, invest in cooperative and apprenticeship programs, and provide ongoing employee development and training opportunities to equip our Company with an effective blend of skills and experience to meet our business objectives.

Change is inevitable in the electric utility industry and to be successful, we must be prepared. Customers are demanding lower prices, increased reliability and more service options. Newfoundland Power will focus on strategic investments in technology that support existing and new customers such as those arising from the oil and gas sector. Technology that enhances service reliability, improves outage reporting or provides e-commerce opportunities will be explored in an effort to respond to our customers' evolving expectations.

Providing safe, reliable service in a cost-efficient manner continues to be a high priority for our customers. In 2000, the Company successfully improved its reliability record by reducing the number of interruptions by 25 per cent and reducing the length of outages by 39 per cent as compared to 1999. Newfoundland Power's electrical rates are the lowest in Atlantic Canada and lower than those in Toronto. Keeping rates as low as possible for customers through operational efficiencies and productivity improvements will continue to be a corporate focus.

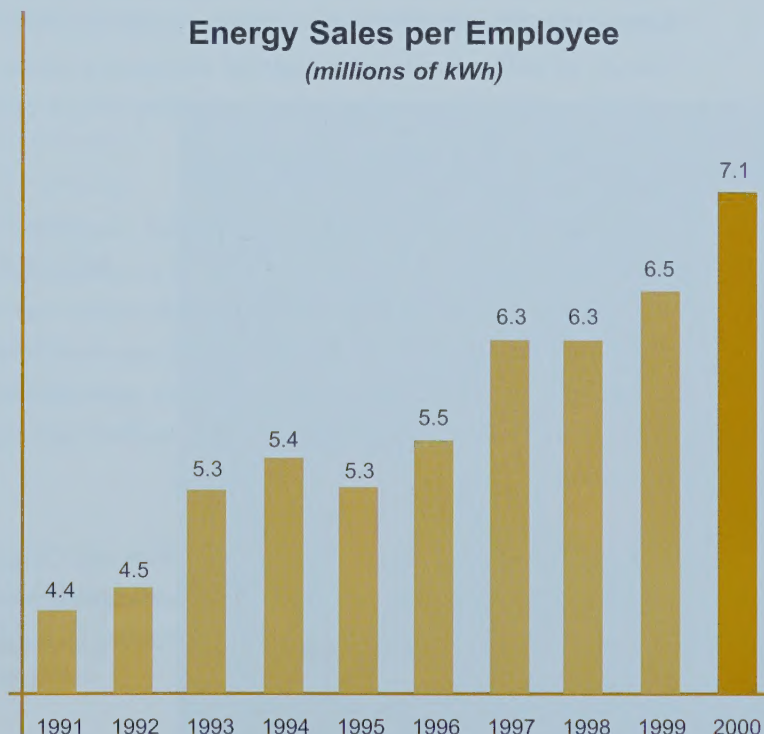
In 2000, the Company strategically invested in electrical system upgrades to improve system reliability in areas where equipment was deteriorated, exposed to the harsh environment or delivered less than acceptable reliability. New standards in distribution line construction were utilized in remote areas to better withstand ice and high winds and further improve reliability. The Company will continue to invest in reliability initiatives while balancing demographic shifts and aging plants with customer expectations.

Newfoundland Power is committed to a high level of customer service.

In 2000, we achieved an overall customer satisfaction rating of 89 per cent, an increase of 27 per cent since 1996. The Company will continue to build on this achievement by keeping pace with customer expectations through customer research, expanded programs and new services such as e-commerce opportunities and website enhancements.

Investments in technology that increase productivity, improve reliability and enhance customer service are critical to achieving the Company's vision.

**Energy Sales per Employee**  
(millions of kWh)





In 2000, enhancements to our outage reporting system reduced crew response time and remote monitoring capabilities at our System Control Center improved reliability. Going forward, we will focus on investing in technologies that support business processes, reduce operating costs and respond to customer needs.

Ensuring that our employees go home safely to their families and loved ones every day is our top priority. Through safety initiatives and a focus on work methods, job planning and risk management, the number of accidents and the number of days lost by employees were reduced from 1999 levels by 17 per cent and 57 per cent, respectively. The Company will continue to invest in communication and training programs to ensure that employees work in the safest environment possible.

The Company is committed to operating in an environmentally responsible manner and incorporates sound environmental practices into its daily operations. In 2000, the Association of Professional Engineers and Geoscientists of Newfoundland ("APEGN") awarded the Company the *APEGN 2000 Environmental Award*, commending our environmental commitment in the design and construction of the Rose Blanche hydro plant.

The Company has achieved consistency with the ISO 14001 standard for its generation functions and is seeking registration in 2001. We are working towards an ISO 14001 standard for all operations by the end of 2001.

Newfoundland Power continues to demonstrate its community pride by sponsoring major events such as the *Vikings! 1000 Years* celebration and the *2000 Newfoundland and Labrador Summer Games*, as well as investing in regional community events. We also recognize and are proud to support our many employees whose volunteer efforts make our communities a better place to live and work.

Delivering reliable service in adverse weather conditions is a constant challenge in Newfoundland's climate. Our employees have developed an excellent reputation for responding to emergency situations. In October 2000, when Belize Electricity, our sister company, experienced the devastation of *Hurricane Keith*, a team of linepersons and technical experts assisted in the recovery efforts. The people of Belize, who were very appreciative of our efforts to assist in power restoration, recognized the team's professionalism and experience from working under extreme conditions.

Our employees are the foundation upon which our Company's success is built. In 2000, we said farewell to 67 long-term employees who participated in the Company's early retirement offerings. We thank these employees for their contributions to the Company's success and wish them well in their retirements.



In 2000, there were a number of changes to our Board of Directors. Dr. Linda Inkpen retired from the Board of Directors after serving 10 years, the last three as Chair. Dr. Inkpen's experience, knowledge and guidance will be greatly missed. Following Dr. Inkpen's retirement, Mr. Bruce Chafe was appointed Chair. Mr. Chafe, a retired chartered accountant and former office managing partner with Deloitte & Touche, has been on our Board for two years.

Ms. Janet Kelly also retired from our Board in 2000 after six years of service. We thank Ms. Kelly for her valuable contribution and commitment to Newfoundland Power.

We welcomed two new members to our Board of Directors in 2000. Mr. Lynn Young and Ms. Dell Texmo were elected at the 2000 Annual General Meeting. Mr. Young, President and Chief Executive Officer of Belize Electricity Ltd., a subsidiary of Fortis Inc., brings to the Board his invaluable knowledge of the electric utility business. Ms. Texmo, President of Living Rooms, a successful retail business in St. John's, will strengthen the Board with her extensive customer service knowledge and business experience.

On April 3, 2000, Mr. Barry Perry was appointed Vice President, Finance and Chief Financial Officer. Mr. Perry most recently worked with a major global forest products company in Quebec as Vice President, Treasurer.

As we look to the future, Newfoundland Power will continue to pursue opportunities to generate revenue utilizing our core competencies. We will continue to perform field and engineering services with local utilities and explore opportunities for in-sourcing arrangements with other businesses in an effort to offset the trend of modest increases in energy sales and limited opportunities for growth.

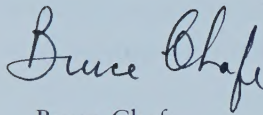
The development of the natural gas industry in Atlantic Canada, which is on the medium-term horizon, may affect energy supply options and present new opportunities for energy generation in our province. Newfoundland Power will continue to strengthen its infrastructure and develop its

***Bruce Chafe, Chair of Newfoundland Power's Board of Directors, and Philip Hughes, President and Chief Executive Officer.***

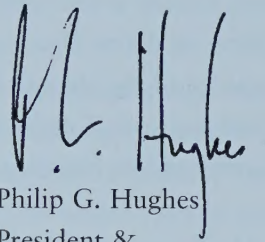


expertise in energy services to be competitive in delivering low-cost, environmentally friendly energy in an increasingly competitive marketplace.

We are committed to building on our achievements to become a leading electrical transmission and distribution company in North America. Through a continuing focus on improving productivity, lowering operating costs and generating revenue from non-traditional sources, we will realize our earnings objectives and achieve business success for our customers, our shareholders and our employees.



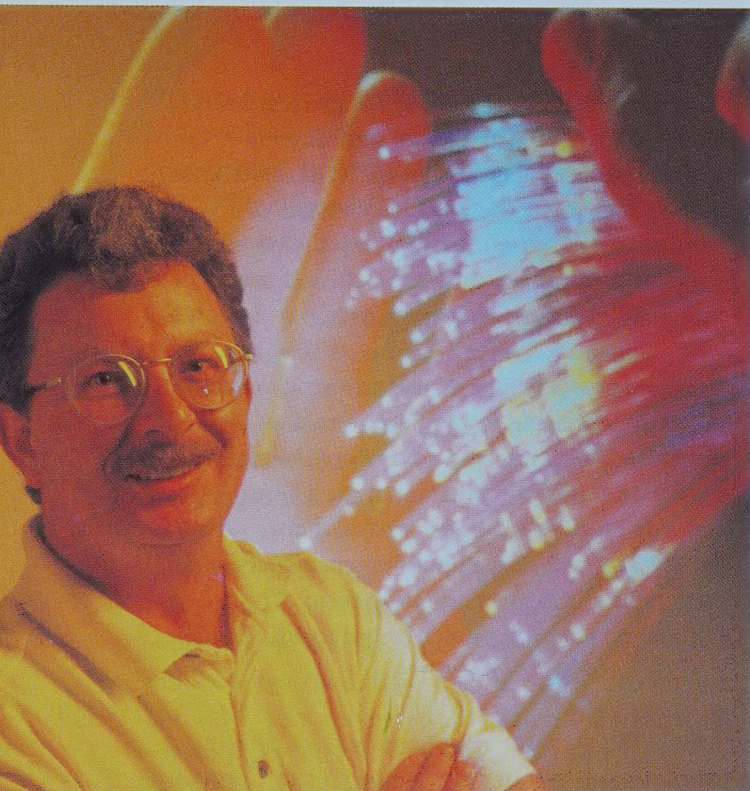
Bruce Chafe  
Chair  
Board of Directors



Philip G. Hughes  
President &  
Chief Executive Officer



# Report on Operations



*Gerry Walsh, Business Systems Analyst, ensures that investments in technology, such as System Control and Data Acquisition (SCADA) and Call Centre components, provide benefits for the Company and our customers.*

employee training, enabled the Company to centralize key functions at the System Control Center. During normal operations, trouble calls are received at the System Control Center and dispatched to crews throughout the Company's service territory, duties traditionally carried out in each operations area. As well, Control Centre Operators dispatch new service and street light installation requests to evening shift crews to further increase productivity.

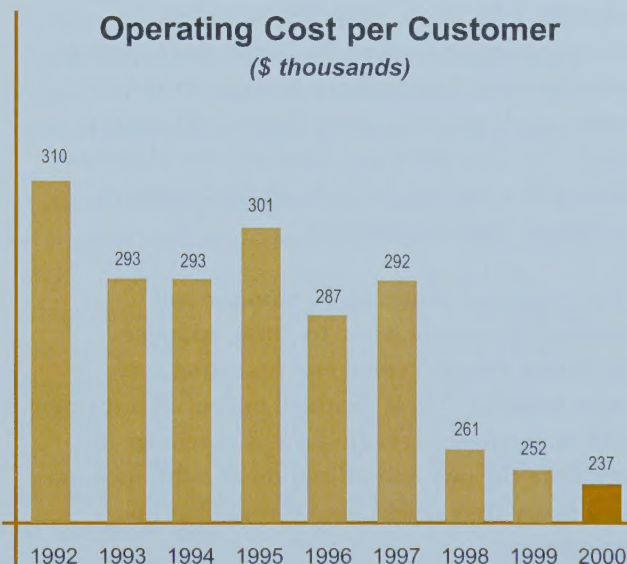
## Productivity

Newfoundland Power continues to focus on productivity initiatives that have a long-term impact on operating costs. Throughout the past year, the Company streamlined operations, strategically utilized its workforce and invested in labour-saving technologies that enhance customer service and improve the Company's financial performance.

A measure of the Company's efforts to improve productivity is reflected in the operating cost per customer. In 2000, operating cost per customer was \$237 compared to \$252 in 1999. Revenue per employee increased to \$539,339 in 2000 from \$492,088 in 1999.

In 2000, a focus on technology resulted in productivity improvements for the Company. The adoption of new technology, combined with

**Operating Cost per Customer**  
(\$ thousands)







*Throughout 2000, dedicated Newfoundland Power employees like Lineperson Jim Bartlett replaced defective insulators and deteriorated equipment in an effort to improve service reliability.*

The purchase of a new remittance processor and changes to internal procedures significantly improved payment processing in 2000. Customer payments are now processed and posted to customer accounts on the same day the payment is received, resulting in more accurate and timely records and reduced operating costs.

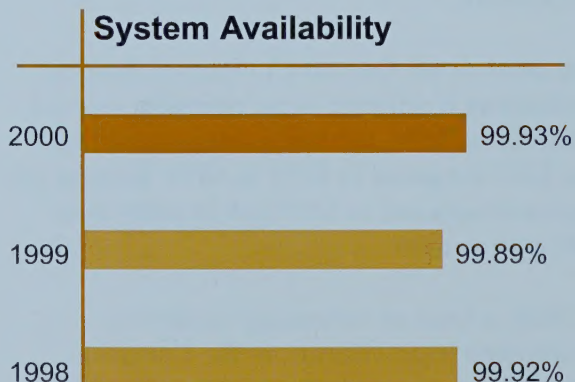
By switching to a stainless steel transformer design and jointly tendering for pole-mounted transformers with our sister company Maritime Electric, we realized further savings. These transformers carry a 20-year rust and corrosion warranty and will reduce maintenance costs and environmental risk over the long-term. The combined purchasing power of both utilities was key to this success.

In late 2000, an Equipment and Service Sharing Agreement was put in place between the Company and Hydro. This agreement is intended to increase the utilization of specialized equipment and improve each organization's ability to respond to emergency situations.

Technology has also streamlined engineering processes. All engineering drawings are now prepared using software that reduces preparation and distribution time. Computerized drawings have also improved the quality and consistency of engineering plans and have streamlined the updating of feeder maps and information systems.

An automated meter reading pilot was launched in 2000. This pilot, with 200 customers participating, will assess the benefits of utilizing wireless radio frequency technology to collect meter readings at locations that are difficult to read. The Company also installed new electronic meters at a number of hydroelectric plants to eliminate manual readings.

The Company continues to monitor and evaluate its vehicle costs. In 2000, strategies to reduce vehicle capital and operating costs were initiated. These included improved inspection and maintenance scheduling and purchases to optimize the mix and utilization of light, medium and heavy-duty trucks used throughout line operations.





*Eugene Doyle, Superintendent, System Control Centre, plays a key role in ensuring that system control operations and related technology improves reliability and service to our customers.*

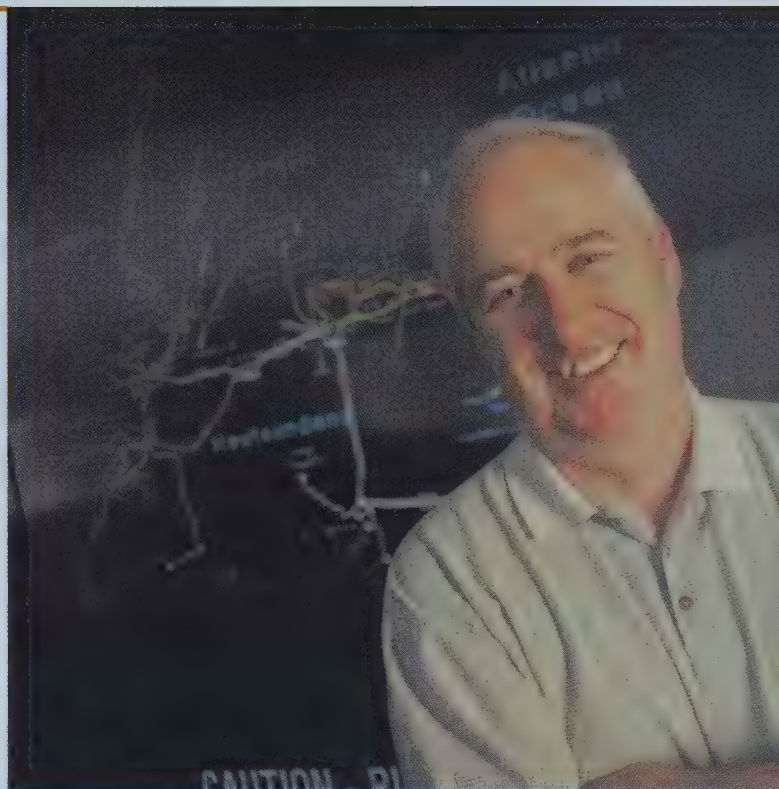
Operational improvements that increase hydroelectric energy production reduce purchased power costs. In 2000, the Company produced 415 GWh, achieving its goal of increasing production by 10 GWh over 1997 levels. Plant availability in 2000 was 88 per cent which was lower than target due to additional unplanned maintenance at a number of the Company's hydroelectric facilities. Much of this work was of a proactive nature to avoid future maintenance expenditures and failures during the high production season.

A Hydro Plant Production Study was initiated in 2000 to determine the generation potential of our hydroelectric systems and to identify operational and infrastructure changes to optimize production. The study recommended that based on normal inflows, the current production estimate of 450 GWh be reduced to 423 GWh. The optimization recommendations are under review and, if cost-justified, will form the basis of future capital budgets.

In 2000, the Rose Blanche hydro plant exceeded our production target of 23 GWh by five GWh. As planned, the plant was utilized on several occasions to carry isolated load in the Port aux Basques area.

## Reliability

The Company continues to realize improvements in its reliability record compared to previous years. In 2000, the Company was successful in providing electricity to customers 99.93 per cent of the time. In addition, the number of outages and length of service interruptions were reduced by 25 per cent and 39 per cent, respectively, as compared to 1999.



Although favourable weather has played a part in this reliability improvement, contributing factors have been the focus on major electrical system rebuilds, the removal of failure-prone insulators and transformers, and improved inspection and maintenance programs.

Throughout 2000, the Company invested in capital programs to substantially improve service and system reliability throughout the province. A new substation was built in St. Catherine's on the Avalon Peninsula at a cost of \$0.5 million and a rebuild of the Gander Bay substation in Central Newfoundland cost approximately \$0.4 million.

A number of distribution lines with below average reliability performance were upgraded in 2000. These reliability projects included the completion of a 12 kilometre ("km") distribution line in the Bay de Verde area and a new 20 km distribution line at Blaketown, both on the province's Avalon Peninsula. In Western Newfoundland, we upgraded a 25 km section of line near Robinsons and relocated a 12 km section of line at Doyles.



*Sharon Keough, Senior Customer Account Representative, is one of the hundreds of employees who continue to meet the needs of our customers and contribute to the Company's highest ever customer satisfaction rating of 89 per cent.*

service through proactive system maintenance and rebuild programs and improved customer communication.

Newfoundland Power further improved system reliability by increasing automation and control of the electrical system through the expansion of System Control and Data Acquisition ("SCADA") capabilities. In 2000, 56 of the scheduled 59 Remote Terminal Units installed at the Company's substations and hydro plants were linked to SCADA. This investment will allow us to automatically determine distribution line failure locations, improve the isolation of failed sections and dramatically reduce service restoration times.

The Company is currently evaluating technology that can detect problems on electrical system insulators. Similar to thermal scanning, corona detection technology can identify potentially faulty insulators. Used in conjunction with thermal scanning, this technology can further reduce the number of unplanned outages and improve reliability of service.

In addition, we enhanced our vegetation management program by improving our communication with customers through the *Tree Smart* campaign, improving and enhancing clearance standards and implementing long-term agreements with contractors. The Company will continue to carry out its vegetation management program in an effort to improve reliability and increase public safety.

Newfoundland Power and Hydro executive met regularly throughout 2000 to focus on reducing system-wide outages. Both companies are implementing a common approach to reporting

Over the past year, the Company installed 1,055 new poles and rebuilt approximately 550 structures at a cost of \$2.7 million through our Distribution Feeder Rebuild Program. In 2001, seven major distribution lines are targeted for rebuild at a cost of approximately \$2 million. This program has proven to be extremely effective in improving reliability and service to customers.

The Company's Transformer and Insulator Replacement Programs were completed in 2000. Approximately 50,000 deteriorated insulators and 3,000 transformers were replaced throughout the four-year programs. The Company will continue to conduct line and equipment inspections and replace insulators and rusty transformers as required to maintain reliable service.

As a result of these electrical system upgrades, the service life of equipment has increased, maintenance costs have been reduced and customers experienced fewer power interruptions.

Despite improved reliability, there was an increase in the number of scheduled interruptions. The increase in planned outages reflects the Company's commitment to improve reliability and customer



outages and will continue to meet in 2001 to set targets and achieve further improvements in reliability.

## Customer Service

Newfoundland Power is committed to listening to customers, responding to their service needs and providing low cost reliable electricity. Through our focus on customer service, the Company has achieved improvements in both service delivery and customer satisfaction.

In 2000, we achieved our highest ever customer satisfaction rating of 89 per cent, a 27 per cent increase since 1996. Our employees' dedication to provide customers with superior service has defined our Company's success in this area.

The Company's Call Centre achieved a service level target of answering 80 per cent of customer calls within 40 seconds and reduced the number of abandoned calls from more than three per cent in 1999 to just over two per cent in 2000. In addition, the automated account balance option was used by 25 per cent of customers who called our office during 2000 compared with 20 per cent in 1999.

A number of new publications have been developed to increase our communication with customers.

In 2000, the Company developed *Power Links*, a newsletter to address electrical safety issues with electricians and electrical service contractors. In 2001, the Company will distribute its first issue of *Business Links* to our key commercial customers. This publication will focus on commercial programs and services and business-related advice.

This past year, a new approach to managing electrical service requests was implemented throughout the Company. Modifications to our Customer Service System to track requests and streamline internal processes and procedures created a single point of contact for our customers. It is now easier for customers and business partners to determine the status of service requests.

Enhancements to the Problem Call Logging System have improved outage information, analysis and reporting functionality. These enhancements, coupled with work methods improvements, have improved the Company's customer outage information, response time and associated costs.

A new customer service and productivity initiative introduced in 2000 permits qualified electricians to remove and replace customer meters to facilitate the installation of siding and other work on customer premises. This initiative eliminates the need for customers to coordinate site visits with our line crews to disconnect and reconnect service and reduces the time customers are without power.

To ensure continuity of service in computer operations in the event of an emergency, the disaster recovery facility was relocated to the Duffy Place Regional Building in St. John's. The new facility is central to the Information Services Department's Disaster Recovery Plan that makes computer systems and related services available as soon as possible following a disruption.

Building upon the successful development of the Company's Year 2000 Contingency Plan, we have developed a Business Continuity Plan for all critical operations that will serve as the blueprint for continuing business operations in the event of a disaster or emergency.



## Environmental Management Goals

Program	Objective
<b>Generation Efficiency Improvement</b>	Maximize efficiency of available water for hydroelectric generation to reduce the use of fossil fuel for generation.
<b>Spill Prevention</b>	Minimize the release of petroleum products into the environment.
<b>Emissions Management</b>	Ensure fossil fuel-fired plant emissions are within regulatory limits.
<b>Dam Safety Program</b>	Ensure dams, control structures and related facilities are maintained in a standard that minimizes environmental impact.
<b>Flood Emergency Preparedness Plans</b>	Develop flood emergency preparedness plans that minimize the potential for environmental degradation in the event of a flood.
<b>Fish Habitat Study</b>	Minimize the impact of hydroelectric plant operations on fish habitat while supporting the principle of sustainable development.
<b>Enhanced Public Reporting</b>	Report environmental performance on an ongoing basis for the awareness of stakeholders.
<b>Recycling Program</b>	Ensure recycling programs exist in Company offices in areas of the province where there are recycling facilities.
<b>Community Programs</b>	Strive to support and participate in community-based projects that focus on the environment.

Geoscientists of Newfoundland awarded the Company the *APEGN 2000 Environmental Award* for our environmental commitment in the design and construction of the Rose Blanche hydro plant. In November 2000, the Company was presented with the St. John's Clean and Beautiful *Mayor's Award* in recognition of our environmental work over the past number of years.

With increased environmental awareness and rigorous environmental management, the Company exceeded many of its environmental targets in 2000. The Company achieved consistency with the ISO 14001 international standard for all of its generation sections and is seeking registration in early 2001. In 2000 we initiated the development of an Environment Management System for our transmission, distribution and associated functions. A goal has been established to have all operations consistent with the ISO 14001 standard by the end of 2001.

The Company completed a number of initiatives to reduce environmental risk in 2000. Six pole yards located in environmentally sensitive areas were granted approval for clean up by the Department of Environment and Labour. The Company's St. John's Electrical Maintenance Facility underwent a clean up with more than 150 pieces of equipment dismantled and 85,000 litres of oil shipped. In addition, approximately 780 distribution transformers were retired and removed from the Whitbourne yard.

In 2000, the number and volume of spills decreased by 41 per cent and 30 per cent, respectively, as compared with 1999. This improvement is attributed to preventative maintenance programs such as the replacement of rusty transformers, the installation of secondary spill containment devices and the replacement of hydraulic hoses on line trucks.

The Company expanded its waste battery disposal program, which originally included only large batteries, to include the disposal of small batteries generated by the Company and employees' families.

## Environment

Newfoundland Power is committed to conducting business in an environmentally responsible manner. In 2000, the Company received independent recognition of its environmental efforts. The Association of Professional Engineers and



*Nine-year-old Jacob Pratt prepares to release salmon fry back into Rennie's River through his participation in Fish Friends, an Atlantic Salmon Federation program sponsored by Newfoundland Power.*

Through the Company's employee-driven Environmental Commitment Program, employees worked with schools and environmental groups throughout 2000 to promote environmental awareness and organize cleanups and recycling programs. Approximately 100 community groups and over 5,000 people participated in *EnviroFest 2000*, a celebration of the environment organized by employee volunteers. This participation rate represents a 100 per cent increase since the program began in 1998.

The Company continued to build on its partnerships with key environmental groups throughout 2000. The Company supported the Atlantic Salmon Federation's *Fish Friends* public education program, completed four tree-planting campaigns with *Tree Canada Foundation*, and joined with other Canadian utilities and energy companies to support *Action by Canadians*, a public awareness campaign aimed at reducing greenhouse gas emissions.

## Safety

Newfoundland Power will not compromise employee or public safety and will strive for excellence in safety performance. As a result of the Company's safety initiatives, there was a significant reduction in the number of employee accidents in 2000. Frequency and severity rates have improved by 17 per cent and 57 per cent, respectively, over 1999.

There was a renewed focus on employee safety in 2000 with the development of the *Back to Basics* safety action plan. *Back to Basics* was developed to refocus employees, especially those in high-risk positions, on the fundamentals of safety in the workplace.



There was also a strong focus on work methods, job planning and risk management throughout 2000 to ensure the safety of our employees. A transformer grounding initiative corrected grounding deficiencies to provide a safer work environment for our line staff, and training programs were delivered to field staff on work methods and the safe utilization of tools. In an effort to reduce the number of vehicle accidents, 460 employees participated in defensive driving courses.

In 1999, nearly 50 per cent of all employee injuries were ergonomic in nature. In an effort to reduce the frequency of these types of injuries, the Company conducted a comprehensive ergonomic study in 2000. The results of this study will be used to implement short and long-term strategies to manage ergonomic issues beginning in 2001.

A continued focus on safety in 2001 will help Newfoundland Power to reach its objective of a Canadian Electricity Association safety rating in the top quartile of comparable electrical utilities by 2002.



Newfoundland Power is committed to ensuring the safety of the public and fulfills this responsibility through preventative maintenance programs, electrical safety training and public awareness campaigns.

In 2000, a number of large capital improvements were carried out at several of the Company's hydro plants to replace deteriorated equipment and ensure the safe operation of the plants. For example, the surge tank at Tors Cove and the steel penstock at Horsechops, both hydro plants on the southern shore of the Avalon Peninsula, were replaced at a cost of \$3 million.

To further ensure the safety of the public, approximately \$0.3 million was expended on the repair and upgrade of bridges, fences, roadways, barriers and signage at the Company's hydro and substation facilities.

The Company has a strong relationship with the Newfoundland and Labrador Fire Chiefs and Firefighters Association. In 2000, qualified employee trainers provided Firefighter Electrical Safety Training to over 225 volunteer firefighters.

*Newfoundland Power's primary goal is to ensure that every single day employees like Jeff Janes return home safely to their families and loved ones. A continued focus on electrical safety training, work methods and job planning are integral to employee safety.*

The Company also provided funding and resources for the development of the Association's volunteer firefighter recruitment campaign.

Our School Safety Program is an integral part of the Company's public safety program. Approximately 13,000 students received electrical safety training in 2000.

In response to an increase in theft and vandalism at substations and on several distribution lines, the Company initiated a public awareness campaign last year that offered a reward for information leading to the conviction of vandals. Damage to equipment poses a safety risk to employees and the public and results in unnecessary outages and inconvenience to our customers.

In 2000, our Eastern Region employees were the recipients of the *2000 Provincial Leadership Recognition Health and Safety Award* granted by the Department of Environment and Labour. The award was presented for the group's demonstrated leadership and commitment in the implementation of an outstanding health and safety system. This award is a real tribute to our employees and their dedication to a safe and healthy workplace.

## Employee Success

Newfoundland Power is committed to ensuring employees' skills are aligned with the objectives of the business and are dedicated to supporting opportunities for growth and helping employees reach their full potential.



*As part of our ongoing partnership with the Newfoundland and Labrador Association of Fire Chiefs and Firefighters, the Company developed a new recruitment campaign aimed at attracting volunteer firefighters. Chad Murphy, Volunteer Firefighter and Sean Budgell, Lineperson and Electrical Safety Trainer, are featured in the public awareness campaign.*

In October 2000, six line staff, two forepersons and three technical experts travelled to Belize to assist our sister company, Belize Electricity, with disaster recovery efforts associated with *Hurricane Keith*. The Newfoundland Power team spent three weeks in San Pedro, one of the hardest hit areas of Belize, to assist in restoration efforts.

Throughout the past year, the Company provided development opportunities for its employees through work placements and reassignments with our Fortis sister companies. Three line staff spent two weeks on a work placement with Maritime Electric in Prince Edward Island. The Company also provided thermal scanning expertise to Canadian Niagara Power. The Company continues to lend technical expertise and advice to Belize Electricity to help improve their operations as well as health and safety programs. The Company will continue to explore work assignment opportunities within the Fortis Group of Companies.

A Leadership Program was launched in October 2000 to advance core leadership competencies in our managers, directors, superintendents and supervisors. The program's modules focus on coaching, development, strategy, innovation, delegation and goal setting, empowerment and building team effectiveness.

The Company supports employee growth through its training and development programs as well as through the Company's mentoring program. Participation in the mentoring program has grown from 79 participants in early 1999 to 159 participants in 2000. Throughout the past year, a



number of employees also gained valuable work experience in job rotations and work assignments in an effort to promote personal and professional development.

The Company has three years remaining in its Collective Agreement with the International Brotherhood of Electrical Workers. The stability of the labour relations environment continues to facilitate the Company's efforts to implement organizational changes that improve productivity, reliability and customer service. A key component of maintaining positive relations includes enhanced communications between the Union and Company representatives.

In early 2001, we will develop a strategic workforce plan to effectively align our workforce with our future business priorities. This plan will focus on the Company's current resources and future skill requirements and will be instrumental in managing the Company's human resource challenges to ensure the continued success of the organization and its people.



*Doug Jackman, Supervisor, Drafting and CAD Specialist, is also a dedicated baseball coach. The Company supports its many employees in their volunteer efforts to make our province a better place in which to live and work.*

## Community Involvement

Newfoundland Power is committed to supporting the betterment of communities throughout Newfoundland through interactive community relations. In 2000, \$0.2 million was allocated to key community groups and charities in an effort to support community relationships across the province.

A highlight of 2000 was the sponsorship of *Vikings! 1000 Years*, a reenactment of the Vikings' landing at L'anse aux Meadows, an event that garnered international attention.

Newfoundland Power supported the youth of our province through the sponsorship of the 2000 *Newfoundland and Labrador Summer Games*, a sponsorship that included a shuttle bus called the *Power Connector* for the transportation of athletes to all Game venues.

Now into our third year of sponsorship with the Canadian Cancer Society - Newfoundland and Labrador Division, more than \$275,000 has been raised through customer, employee and Company donations. The Company's three-year commitment to the Canadian Cancer Society expires in 2001 and the Company has asked employees and customers for suggestions on a new corporate charity.

In 2001, the Company will continue to build its corporate profile through strategic partnerships with community-based health, education, arts and culture, sports, environment and business groups.



# Management Discussion & Analysis

## Financial Results

In 2000, Newfoundland Power earned \$2.57 per share, an increase of \$0.36 per share, or 16 per cent over 1999 earnings per share of \$2.21.

Earnings were \$26.5 million, up \$3.6 million from 1999, reflecting an increase in the allowed return on the Company's rate base as ordered by the Board of Commissioners of Public Utilities of Newfoundland ("PUB") in November 1999. The increase was also attributed to higher revenue, lower operating expenses and the favourable resolution of an income tax issue.

The Company's revenues increased by 1.9 per cent to \$348.4 million compared to \$342.0 million in 1999. This increase was a result

of higher energy sales and a 0.7 per cent increase in electricity rates effective January 1, 2000. In addition, interest of \$6.8 million was received as a result of a corporate tax deposit refund related to a 2000 reassessment by Canada Customs and Revenue Agency ("CCRA") with respect to general expenses capitalized. This interest is largely offset by a provision for excess revenue of \$6.6 million, the disposition of which will be addressed by the PUB in accordance with provincial legislation respecting utility regulation.

Newfoundland Power's energy sales are directly affected by economic growth and other changes in the provincial economy. In 2000, Newfoundland Power experienced a 1.2 per cent increase in overall energy sales from 4,500 gigawatt hours ("GWh") in 1999 to 4,555 GWh. Residential energy sales were 2,707 GWh, up 1.3 per cent, or 35 GWh, while commercial energy sales were 1,848 GWh, up 1.1 per cent, or 20 GWh, over 1999 levels. The increase in residential energy sales resulted from customer growth, while commercial energy sales reflect the net effect of growth in the fishing and oil industries and the shutdown of a significant commercial customer.

Purchased power expense in 2000 increased by 3.4 per cent, or \$6.5 million, over 1999. This increase was primarily the result of higher energy sales and a \$1.2 million charge related to the reserve account used to normalize annual variations in system hydrology. The Company normalizes its hydroelectric production for annual variations in system hydrology through the operation of a Hydro Production Equalization Reserve ordered by the PUB. A water management study completed in 2000 recommended a reduction in the annual normal hydroelectric production figure of 450 GWh used in calculating this reserve to 423 GWh.



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Other operating expenses have decreased from 1999 by 5.7 per cent or \$2.9 million. This decrease was primarily due to lower labour costs resulting from an early retirement program in 1999 and the adoption of new accounting rules for pensions.

The continued commitment to reduce operating expenses has facilitated the introduction of programs such as an early retirement program in 2000 that has helped position the Company to continue to deliver positive operating results into the future.

The Company's operating cost per customer was \$237 in 2000, down from \$252 in 1999. This was the lowest result in the last 10 years and represents a 20 per cent reduction since 1991.

### Income Taxes

In 2000, Newfoundland Power substantially reduced the potential liability associated with income tax reassessments issued by CCRA in 1995 for the years 1988 to 1993.

As a result of representations to CCRA by the Company's management, the potential income tax liability of \$40 million reflected in the notes to the Company's 1999 financial statements has been reduced by approximately \$26 million to \$14 million at December 31, 2000.

In 1995, CCRA disallowed certain amounts capitalized for regulatory and accounting purposes but claimed as expenses for tax purposes. New Notices of Reassessment issued in 2000 confirmed the deductibility of these items. CCRA has refunded \$8.8 million to Newfoundland Power (including interest income of \$6.8 million) of \$15.6 million deposited with CCRA in 1995 when the original Notices of Objection were filed by the Company.

The remaining issue to be resolved with CCRA relates to the Company's practice of recording

revenue as customers are billed. Since its inception, the Company has recorded revenue in this manner in accordance with orders of the PUB.

The Company has filed a Notice of Objection relating to the revenue issue and believes it has valid arguments supporting its position. However, should the Company be unsuccessful, a liability of approximately \$14 million would arise. Should this occur, the Company would apply to the PUB for regulatory approval to change its accounting policy, enabling it to recognize revenue on an accrual basis. The resulting recognition of approximately \$17 million in additional revenue would more than offset the liability.

The Company records income taxes in accordance with PUB orders. The method used results in taxes being recorded only on certain differences between the books of account and the tax return. As a result, the effective tax rate is subject to fluctuation. In 2000, the effective tax rate was 32.9 per cent, down from 41.9 per cent in 1999. This decrease is the result of a reduction in pension expense due to changes in accounting rules and a one-time adjustment arising from the deductibility of general expenses capitalized.

### Regulation

Newfoundland Power operates under cost of service regulation as prescribed by provincial legislation and orders of the PUB. Earnings are regulated on the basis of rate of return on rate base. In 1998, an automatic adjustment formula was established by the PUB to annually determine the permitted rate of return on rate base.

In accordance with the automatic adjustment formula, the allowed rate of return on rate base for 2000 was raised from 9.98 per cent to 10.28 per cent, permitting the Company to earn within a range of 10.10 per cent to 10.46 per cent. In 2000, largely due to the impact of interest



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received on the corporate tax deposit refund, the Company exceeded the maximum allowed rate of return. A reserve account has been established by order of the PUB for the purpose of accounting for excess revenue. A provision of \$6.6 million has been made to this account for the regulatory obligations resulting from the 2000 excess revenue.

On November 28, 2000, the PUB ordered that the application of the automatic adjustment formula would not change Newfoundland Power's consumer electricity rates for 2001. The currently allowed return on rate base of 10.28 per cent is based on the Company's total cost of capital and provides for a return on equity of 9.59 per cent.

### **Capital Resources and Liquidity**

Cash from operations totaled \$73.7 million in 2000, providing a substantial portion of the Company's cash requirements. The increase of \$27.3 million from 1999 resulted from an increase in earnings, a refund of a corporate income tax deposit and an adjustment to working capital. Interim financing of \$160 million is also available through bank lines of credit.

The Company's 2001 capital budget has been approved at \$39 million and is expected to be financed using internally generated funds and existing bank lines of credit.

Regular dividend payments were made on the Company's common shares throughout 2000. In July 1999, Newfoundland Power resumed regular quarterly dividend payments following a suspension of dividends on its common shares in September 1998.

### **Risk Analysis**

The Company operates an integrated generation, transmission and distribution system throughout the island of Newfoundland and serves approximately 215,000 customers in 600 communities across Newfoundland. These

customers constitute 85 per cent of all electrical customers in the province. The balance of the population is served by Hydro, a crown corporation that also serves several large industrial customers in Newfoundland.

The recovery of current and past expenses incurred in the delivery of electrical service continues to be the principal long-term risk facing Newfoundland Power. This risk is affected by a number of factors including general economic conditions in the Company's service territory, potential changes in regulation and competition in the energy market.

The strong economic growth experienced by the Newfoundland economy in 2000 is expected to continue in 2001. The Conference Board of Canada predicts the province will lead the country in economic growth with real Gross Domestic Product ("GDP") expected to increase by 4.7 per cent in 2001. This growth is a direct result of large resource-based projects such as Hibernia and Terra Nova. However, other sectors such as fishing and manufacturing are also expected to contribute.

Service sector GDP, which is more predictive of Newfoundland Power's energy sales, is forecast to grow at a more modest rate of 1.8 per cent in 2001. The slow recovery of northern cod stocks and its impact on the inshore fishery, as well as high levels of unemployment and out-migration in rural parts of the province, continue to contribute to lower service sector GDP growth.

Overall, a developing oil industry, a strong shellfish-processing sector and tax reductions at both the federal and provincial levels will lead to increased employment and personal disposable income.

The Energy Policy Review initiated by the Provincial Government in 1998 is not yet complete. This review is examining five elements

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that affect Newfoundland Power's business including: legislation and regulation, existing electrical industry structure, electrical supply in the province, pricing and electricity as a tool for economic development.

Newfoundland Power supports a move to more flexible, incentive-based regulation that is reflective of global regulatory trends and better aligned with customers' expectations regarding reliability and price.

The Company generates nine per cent of its energy needs, primarily from its hydroelectric facilities, and purchases the remainder from Hydro. In 2000, purchased power cost represented 57 per cent of the Company's annual revenues. On the island portion of the province, Hydro generates approximately 75 per cent of its energy needs from its hydroelectric facilities, with the balance largely generated by an oil-fired generating plant located in Holyrood, Newfoundland. The fuel cost associated with the Holyrood generating facility represents approximately 14 per cent of the Company's purchase power costs.

The Company's electrical rates include the operation of a Rate Stabilization Account that flows through to customers any changes in the fuel cost associated with both the purchase price of fuel and the volume of fuel consumed. This account acts to smooth the impact of changing fuel prices on both the Company's earnings and customers' electrical rates.

Hydro's current energy rate to the Company was last set in 1992. Since that time the cost of fuel has increased significantly. Hydro is expected to make application in 2001 to change the electrical rate charged to the Company effective January 1, 2002. Given the higher world oil prices and possible increased costs associated with new generation, electrical rates for the Company and its consumers could increase.

Although the island's small customer base and geographic isolation from the North American grid makes full retail customer choice unlikely, competition for future generation developments and a separation of the wires business are possible options.



# Management Report

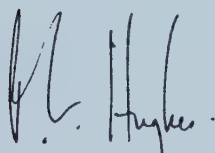
The accompanying financial statements of Newfoundland Power Inc. and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management with accounting principles generally accepted in Canada. Financial information contained elsewhere in the annual report is consistent with that in the financial statements.

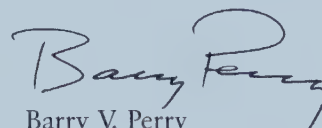
Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of financial information and that the assets of the company are properly safeguarded. The effectiveness of these internal controls is evaluated on an ongoing basis by the external and internal auditors.

The Audit, Risk & Environment Committee reviews the annual financial statements and recommends their approval to the Board of Directors. This committee meets with the internal and external auditors, with and without management present, to discuss the results of the audits, the adequacy of the internal accounting controls and financial reporting matters.

The financial statements have been audited by Deloitte & Touche LLP, and their report follows.



Philip G. Hughes  
President  
& Chief Executive Officer



Barry V. Perry  
Vice President, Finance  
& Chief Financial Officer

# Auditors' Report

To the Shareholders,  
Newfoundland Power Inc.

We have audited the balance sheets of Newfoundland Power Inc. as at December 31, 2000 and 1999 and the statements of income, retained earnings and cashflows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999 and the results of its operations and cashflows for the years then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Newfoundland  
January 17, 2001

*Deloitte & Touche LLP*

Chartered Accountants



# Statements of Income

For the Years Ended December 31

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
Revenue (Note 1)	<u>\$ 348,413</u>	<u>\$ 342,001</u>
Operating Expenses		
Purchased power	199,266	192,755
Other operating expenses	48,926	51,858
Early retirement program costs	3,560	851
Depreciation	29,625	29,638
Finance charges (Note 2)	26,641	26,488
	<u>308,018</u>	<u>301,590</u>
Income Before Income Taxes	40,395	40,411
Income Taxes (Note 3)	13,296	16,927
Net Income for the Year	27,099	23,484
Dividends on Preference Shares	626	626
Earnings Applicable to Common Shares	<u>\$ 26,473</u>	<u>\$ 22,858</u>
Earnings per Common Share	<u>\$ 2.57</u>	<u>\$ 2.21</u>

# Statements of Retained Earnings

For the Years Ended December 31

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
Balance at Beginning of the Year	\$ 172,527	\$ 159,164
Net income for the year	27,099	23,484
	<u>199,626</u>	<u>182,648</u>
Dividends		
Preference shares	626	626
Common shares	18,990	9,495
	<u>19,616</u>	<u>10,121</u>
Balance at End of the Year	<u>\$ 180,010</u>	<u>\$ 172,527</u>

See accompanying notes to financial statements.

# Balance Sheets


As at December 31

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
<b>Assets</b>		
Fixed Assets (Note 4)		
Property, plant and equipment	\$ 865,406	\$ 844,598
Less: accumulated depreciation	<u>353,078</u>	<u>344,506</u>
	<u>512,328</u>	<u>500,092</u>
Corporate Income Tax Deposit (Note 9)	<u>13,636</u>	<u>15,595</u>
Deferred Charges (Note 5)	<u>58,969</u>	<u>49,015</u>
Current Assets		
Accounts receivable	35,033	33,108
Materials and supplies at average cost	3,910	5,492
Rate stabilization account	<u>4,376</u>	<u>4,828</u>
	<u>43,319</u>	<u>43,428</u>
	<u>\$ 628,252</u>	<u>\$ 608,130</u>

## Shareholders' Equity and Liabilities

Shareholders' Equity		
Common shares (Note 6)	\$ 70,321	\$ 70,321
Retained earnings	180,010	172,527
Common shareholder's equity	<u>250,331</u>	<u>242,848</u>
Preference shares (Note 6)	9,890	9,890
	<u>260,221</u>	<u>252,738</u>
Long-term Debt (Note 7)	<u>277,108</u>	<u>280,158</u>
Current Liabilities		
Bank indebtedness	-	3,600
Short-term borrowings	19,224	16,026
Accounts payable and accrued charges (Note 1)	68,649	52,558
Current installments of long-term debt	<u>3,050</u>	<u>3,050</u>
	<u>90,923</u>	<u>75,234</u>
	<u>\$ 628,252</u>	<u>\$ 608,130</u>

APPROVED ON BEHALF OF THE BOARD:

  
Derek Hiscock  
Director

  
Bruce Chafe  
Director

See accompanying notes to financial statements.



# Statements of Cashflows

For the Years Ended December 31

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
Cash From (Used in) Operations		
Net income for the year	\$ 27,099	\$ 23,484
Reduction in income tax deposit	1,959	-
Items not affecting cash		
Depreciation	29,625	29,638
Weather normalization account	(1,378)	(2,340)
Amortization of deferred charges	233	257
Change in non-cash working capital	<u>16,200</u>	<u>(4,635)</u>
	<u>73,738</u>	<u>46,404</u>
Cash From (Used in) External Financing		
Repayment of long-term debt	(3,050)	(3,050)
Short-term borrowings	3,198	11,530
Contributions in aid of construction	1,819	1,429
Dividends		
Preference shares	(626)	(626)
Common shares	<u>(18,990)</u>	<u>(9,495)</u>
	<u>(17,649)</u>	<u>(212)</u>
Cash (Used in) Investing		
Capital expenditures (net of salvage)	(43,680)	(43,792)
Increase in deferred charges	<u>(8,809)</u>	<u>(5,455)</u>
	<u>(52,489)</u>	<u>(49,247)</u>
Increase (Decrease) in Cash	3,600	(3,055)
Bank Indebtedness, Beginning of the Year	(3,600)	( 545)
Bank Indebtedness, End of the Year	<u>\$ -</u>	<u>\$ (3,600)</u>

See accompanying notes to financial statements.



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# Notes to Financial Statements

December 31, 2000

## SUMMARY OF ACCOUNTING POLICIES

### Regulation

Accounting policies conform to Canadian generally accepted accounting principles and to accounting requirements established from time to time by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("PUB"). In order to achieve proper matching of revenues and expenses, the Company follows accounting practices prescribed by the PUB. Accordingly, the timing of recognition of certain revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles applicable to non-regulated operations.

### Revenue

The company's revenue is derived from the sale of electricity in Newfoundland and is recognized as bills are rendered to customers. Other revenues are recognized as earned.

### Fixed Assets

Property, plant and equipment is stated at values approved by the PUB as at June 30, 1966 with subsequent additions at cost. The cost of plant and equipment retired, less salvage, is charged to accumulated depreciation.

Depreciation is provided in the accounts on the straight-line method based on the estimated service life of plant and equipment, as approved by the PUB. The composite rate is 3.8 per cent (1999 - 3.8 per cent) before reduction for the amortization of contributions in aid of construction and accrued depreciation reserve adjustments. Accrued depreciation reserve adjustments are being amortized over five years ending December 31, 2000, as approved by the PUB.

Contributions represent the cost of property, plant and equipment contributed by customers and governments. These accounts are being reduced by an amount equal to the annual charge for depreciation provided on the related assets. Certain contributions by the province of Newfoundland carry conditional options allowing the province to re-acquire the plant so contributed.

### Interest Charged to Construction

On certain construction projects, interest at varying rates as set out by the PUB is capitalized and included as a cost in the appropriate property accounts.

### Pension Costs

Pension costs are actuarially determined using the projected benefit method prorated on service and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market value of pension plan assets are amortized on a straight-line basis over the expected average remaining service life of the employee group, except for pension liabilities created by early retirement offerings. The pension liabilities created by these offerings are amortized according to Canadian generally accepted accounting principles, unless otherwise ordered by the PUB. The cumulative difference between



pension fund contributions and pension costs is recorded in the company's accounts as deferred pension costs.

#### **Other Post-Employment Benefits**

The company also provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements the cost of these benefits is recorded in the year incurred.

#### **Deferred Charges**

Deferred charges are amortized as follows:

- |                              |   |
|------------------------------|---|
| Debt discount and expense:   | over the life of each issue.  |
| Capital stock issue expense: | over 20 years from date of issue.   |
| Deferred regulatory costs:   | costs billed to the company by the PUB with respect to 1998 regulatory proceedings are amortized over three years ending in 2001. |

#### **Rate Stabilization Account**

The company's rate schedule includes a rate stabilization clause which permits the company to recover charges to the Rate Stabilization Account (the "Account") from customers. The rate is recalculated on July 1 of each year to reflect changes in the Account from year to year and any changes in the rates charged to the company by Newfoundland and Labrador Hydro as the result of the operation of its Rate Stabilization Plan.

#### **Weather Normalization Account**

The PUB has ordered provision of a weather normalization account to adjust for the effect of variations in weather and streamflow when compared to long-term averages. The balance in the weather normalization account is subject to annual approval by the PUB.

#### **Income Taxes**

The PUB specifies the method of accounting for income taxes. Commencing January 1, 1981, the PUB allowed the tax allocation method with respect to the timing difference between depreciation and capital cost allowances for all depreciable assets. If the full tax allocation method of accounting had always been followed, the cumulative deferred income tax liability would have increased by approximately \$72 million at December 31, 2000 (1999 - \$89 million). The 2000 liability has been calculated on the basis of announced legislative changes to income tax rates.

#### **Financial Instruments**

The company's financial instruments consist primarily of accounts receivable, accounts payable and accrued liabilities and long-term debt. Accounts receivable do not represent a significant concentration of credit risk because the accounts are owed by a large number of customers on normal credit terms. These financial instruments have a fair value which approximates carrying value, unless otherwise disclosed.

#### **Use of Accounting Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### 1. Revenue

Newfoundland Power operates under cost of service regulation as prescribed by orders of the PUB. Earnings are regulated on the basis of rate of return on rate base. In 2000, the approved range of return on rate base allowed under PUB orders was 10.10 percent to 10.46 per cent. Largely due to the impact of interest received on a corporate tax deposit refund, the company exceeded the maximum allowed rate of return in 2000 resulting in excess revenue of \$6.6 million. This amount has been set aside in an Excess Revenue Account and will be accounted for as ordered by the PUB.

### 2. Finance Charges

	2000	1999
	<i>(in thousands)</i>	
Interest - long-term debt	\$ 27,281	\$ 27,577
- short-term debt	717	166
Amortization - debt discount and expense	161	179
- capital stock issue expense	72	78
Interest earned	(1,252)	(1,103)
Interest charged to construction	(338)	(409)
	<u>\$ 26,641</u>	<u>\$ 26,488</u>

Long-term and short-term interest payments made during the year totalled \$27.9 million (1999 - \$27.7 million).

### 3. Income Tax Rate

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Newfoundland provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate.

	2000	1999
	<i>(in percentages)</i>	
Statutory income tax rate	43.1	43.1
Large corporations tax	2.3	2.1
General expenses capital	(5.4)	(0.4)
Pension costs	(10.1)	(6.2)
Timing difference not recorded	3.0	3.3
Effective income tax rate	<u>32.9</u>	<u>41.9</u>

Income tax payments made during the year totalled \$11.4 million (1999 - \$11.5 million).



#### 4. Fixed Assets

December 31, 2000 (in thousands)				
	Cost	Accumulated Amortization	Net Book Value	Composite Depreciation Rate
Distribution	\$ 512,979	\$ 220,699	\$ 292,280	3.5%
Transmission				
and substations	176,144	78,844	97,300	3.0%
Generation	106,457	36,206	70,251	2.2%
Land, buildings				
and equipment	90,362	33,308	57,054	6.6%
Transportation and				
communications	36,629	21,351	15,278	9.3%
	<u>922,571</u>	<u>390,408</u>	<u>532,163</u>	<u>3.8%</u>
Contributions in				
Aid of Construction	(57,165)	(37,330)	(19,835)	
	<u>\$ 865,406</u>	<u>\$ 353,078</u>	<u>\$ 512,328</u>	

December 31, 1999 (in thousands)				
	Cost	Accumulated Amortization	Net Book Value	Composite Depreciation Rate
Distribution	\$ 496,617	\$ 207,976	\$ 288,641	3.6%
Transmission				
and substations	171,604	76,225	95,379	3.0%
Generation	106,313	41,209	65,104	2.1%
Land, buildings				
and equipment	85,983	29,464	56,519	6.2%
Transportation and				
communications	39,427	25,413	14,014	9.3%
	<u>899,944</u>	<u>380,287</u>	<u>519,657</u>	<u>3.8%</u>
Contributions in				
Aid of Construction	(55,346)	(35,781)	(19,565)	
	<u>\$ 844,598</u>	<u>\$ 344,506</u>	<u>\$ 500,092</u>	

#### 5. Deferred Charges

	2000	1999
(in thousands)		
Deferred pension costs	\$ 46,469	\$ 36,986
Weather normalization account	8,740	7,362
Unamortized debt discount and expense	2,752	2,913
Unamortized capital stock issue expense	597	669
Deferred regulatory costs and other	411	1,085
	<u>\$ 58,969</u>	<u>\$ 49,015</u>

## 6. Common and Preference Shares

### Authorized

- (a) an unlimited number of Class A and Class B Common Shares without nominal or par value. The shares of each class are inter-convertible on a share for share basis and rank equally in all respects including dividends. The Board of Directors may provide for the payment, in whole or in part, of any dividends to Class B shareholders by way of a stock dividend;
- (b) an unlimited number of First Preference Shares without nominal or par value except that Series A, B, D and G First Preference Shares have a par value of \$10 each;
- (c) an unlimited number of Second Preference Shares without nominal or par value.

### Issued and outstanding

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
Common shares		
<u>10,320,270</u> Class A common shares	<u>\$ 70,321</u>	<u>\$ 70,321</u>
Preference shares		
179,225    5 1/2% Series A	\$ 1,792	\$ 1,792
337,983    5 1/4% Series B	3,380	3,380
229,765    7 1/4% Series D	2,298	2,298
<u>241,950</u> 7.60% Series G	<u>2,420</u>	<u>2,420</u>
<u>988,923</u> First preference shares	<u>\$ 9,890</u>	<u>\$ 9,890</u>

Series A, B, D and G First Preference Shares are cumulative redeemable voting shares.

Each series of First Preference Shares is redeemable at the option of the company at a premium not in excess of the annual dividend rate.

Series D and G First Preference Shares are subject to the operation of purchase funds and the company has the right to purchase limited amounts of Series D and G at or below par.

## 7. Long-term Debt

	<u>2000</u>	<u>1999</u>
	<i>(in thousands)</i>	
First mortgage sinking fund bonds		
11.500% Series AB, due 2005	\$ 13,500	\$ 13,650
11.875% Series AC, due 2007	34,270	34,670
10.550% Series AD, due 2014	34,153	34,553
10.900% Series AE, due 2016	36,400	36,800
10.125% Series AF, due 2022	36,800	37,200
9.000% Series AG, due 2020	37,600	38,000
8.900% Series AH, due 2026	38,435	38,835
6.800% Series AI, due 2028	49,000	49,500
	<u>280,158</u>	<u>283,208</u>
Less: current installments	3,050	3,050
	<u>\$ 277,108</u>	<u>\$ 280,158</u>



The first mortgage bonds are secured by a first fixed and specific charge on property, plant and equipment owned or to be acquired by the company and by a floating charge on all other assets. Annual payments required to meet sinking fund payments, installments and maturities of long-term debt are as follows:

2001	\$ 3,050,000
2002	\$ 3,050,000
2003	\$ 3,050,000
2004	\$ 3,050,000
2005	\$ 15,800,000

The estimated fair value of the company's first mortgage bonds was \$343 million at December 31, 2000 (1999 - \$334 million). Fair value was estimated using present value techniques based on borrowing rates at year-end for debt with similar terms and maturities. The fair value estimate does not include exchange or settlement costs as the company does not intend to retire the debt prior to maturity.

## **8. Related Party Transactions**

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The company is a wholly-owned subsidiary of Fortis Inc. In 2000, net charges to related companies were \$648,000 (net charges to related companies in 1999 - \$487,000). Terms of these transactions were the same as those with unrelated parties.

## **9. Contingent Liability**

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In 2000, CCRA issued Notices of Reassessment to the company confirming the deductibility of certain amounts capitalized by the company for regulatory and accounting purposes, and reconfirming a 1995 reassessment which included in income the value of electricity consumed in December but not billed until January. The company's practice, which has always been consistent and in accordance with regulatory requirements, is to record revenue on a billed basis.

The company believes it has reported its tax position appropriately and has filed a Notice of Objection with the Minister of National Revenue. No provision has been made in the accounts for additional income taxes, if any, which may be determined to be payable. Should the company be unsuccessful in defending its position, a liability of approximately \$14 million, including accrued interest, would arise. In this event the company would apply to the PUB to include the amount in the rate making process. This application may include a request to change the current accounting practice of recognizing revenue when billed. If the PUB approves this change in accounting practice, electricity, valued at approximately \$17 million, consumed in December but not billed until January would be included in income.

The provisions of the Income Tax Act require the company to deposit one half of the amount in dispute with CCRA. The amount currently withheld by CCRA arising from the 2000 reassessment is approximately \$14 million. This amount exceeds the required deposit by approximately \$7 million and, accordingly, the company has requested that this amount be refunded.

## 10. Employee Future Benefits

On January 1, 2000 the company adopted the recommendations of Section 3461 of the CICA Handbook, Employee Future Benefits as they relate to the company's defined benefit pension plan. Pension costs are determined annually by independent actuaries using managements best estimates of expected plan investment performance, salary escalation and retirement ages of employees.

The company also provides extended health care and life insurance benefits for all retired employees. In accordance with regulatory requirements the cost of these benefits is recorded in the year incurred.

Information about the defined benefit plan which represents a contractual obligation of the company is as follows:

Accrued benefit obligation	(in thousands)
Balance, beginning of year	\$ 126,353
Assumption changes	7,837
Current service costs	2,708
Interest costs	9,784
Benefits paid	(10,316)
Actuarial (gains) losses	9,259
Plan amendments	2,679
Balance, end of year	<u>\$ 148,304</u>
Plan assets	
Fair value, beginning of year	\$ 148,008
Expected return on assets	11,871
Benefits paid	(10,316)
Actuarial gains (losses)	(1,133)
Contributions to the plan	14,070
Fair value, end of year	<u>\$ 162,500</u>
Funded status	
Surplus (deficit) at year end	\$ 14,196
Unamortized amounts	10,392
Transitional assets	21,881
Deferred pension costs	<u>\$ 46,469</u>
Significant assumptions used	
Discount rate during 2000	7.50%
Discount rate at December 31, 2000	7.00%
Expected long-term rate of return on plan assets	8.00%
Rate of compensation increases	5.00%
Average remaining service year of active employees	18
Net benefit expense for the year	
Current service costs	\$ 1,499
Interest costs	9,784
Expected return on plan assets	(11,871)
Amortization of transitional obligation and amendments	3,966
Net benefit expense	<u>\$ 3,378</u>

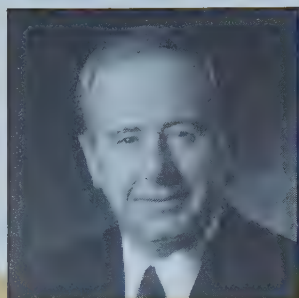


# Ten Year Summary

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>Income Statement Items</b> (in \$000s)										
Revenue	348,413	342,001	335,751	343,677	341,560	338,934	338,367	333,570	330,221	319,143
Operating expenses	251,752	245,464	244,227	248,266	246,849	245,946	239,707	236,307	237,345	230,423
Finance charges	26,641	26,488	25,233	24,949	24,010	22,739	22,972	22,494	21,628	21,485
Depreciation	29,625	29,638	28,067	26,800	26,314	28,896	28,141	26,921	25,878	24,555
Income taxes	13,296	16,927	16,027	18,105	18,617	13,120	19,745	18,666	15,708	14,881
Earnings applicable to common shares	26,473	22,858	21,571	24,931	25,144	27,638	27,090	27,702	27,731	25,483
<b>Balance Sheet Items</b> (in \$000s)										
Property, plant and equipment*	865,406	844,598	817,820	790,290	770,165	752,597	730,649	703,513	676,980	644,992
Accumulated depreciation*	353,078	344,506	330,453	319,209	301,063	283,936	262,085	239,332	219,060	199,802
Net fixed assets*	512,328	500,092	487,367	471,081	469,102	468,661	468,564	464,181	457,920	445,190
Total assets *	628,252	608,130	585,676	564,394	554,125	545,874	527,726	523,894	521,430	495,595
Long-term debt	280,158	283,208	286,258	238,808	241,323	203,473	217,031	218,906	221,181	197,686
Preference shares	9,890	9,890	9,890	9,890	9,890	9,890	10,902	10,905	22,296	29,889
Common equity	250,331	242,848	229,485	227,512	226,157	234,779	225,098	226,054	212,904	199,082
Total capital	540,379	535,946	525,633	476,210	477,370	448,142	453,031	455,865	456,381	426,657
<b>Operating Statistics</b>										
<b>Sources of Energy</b> (in millions of kWh)										
Purchased	4,432	4,292	4,259	4,244	4,236	4,186	4,178	4,093	4,066	4,008
Generated	423	450	429	424	423	423	420	420	417	417
Total	4,855	4,742	4,688	4,668	4,659	4,609	4,598	4,513	4,483	4,425
<b>Sales</b> (in millions of kWh)										
Residential	2,707	2,672	2,652	2,669	2,635	2,600	2,594	2,540	2,509	2,462
Commercial and street lighting	1,848	1,828	1,788	1,769	1,790	1,782	1,777	1,746	1,735	1,734
Total	4,555	4,500	4,440	4,438	4,425	4,382	4,371	4,286	4,244	4,196
Energy sales per employee	7.1	6.5	6.3	6.3	5.5	5.3	5.4	5.3	4.5	4.4
<b>Customers</b> (year-end)										
Residential	185,287	183,921	182,324	181,168	179,375	177,431	175,797	172,942	170,418	167,217
Commercial and street lighting	29,923	29,720	29,786	29,518	29,421	29,243	29,103	28,686	28,518	28,513
Total	215,210	213,641	212,110	210,686	208,796	206,674	204,900	201,628	198,936	195,730
Operating cost per customer (\$)	237	252*	261	292	287	301	293	293	310	296
Revenue per employee (\$)	539,339	492,088	476,243	487,485	425,355	412,328	419,290	409,288	347,601	333,483
Number of regular employees (year-end)	646	695	705	705	803	822	807	815	950	957

\*Restated to reflect changes in presentation for 2000.

# Board of Directors



**Bruce Chafe**  
Chair, Board of Directors  
Newfoundland Power Inc.  
St. John's, Newfoundland



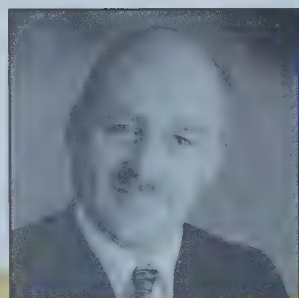
**Frank J. Coleman**  
President  
Coleman Management  
Services Ltd.  
Corner Brook, Newfoundland



**Rex V. Gibbons**  
Executive Vice President &  
Senior Geoscience Consultant  
Jacques Whitford Environment Ltd.  
St. John's, Newfoundland



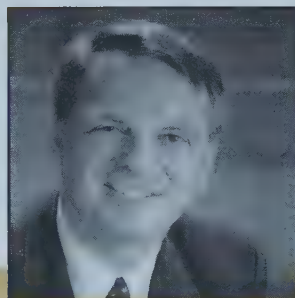
**Derrick E. Gill**  
Executive Vice President  
Voisey's Bay Nickel Company Ltd.  
St. John's, Newfoundland



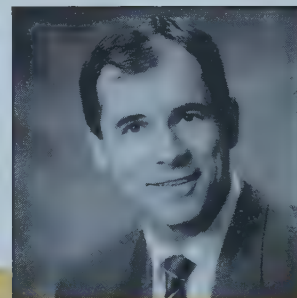
**Derek F. Hiscock**  
President  
Robinson-Blackmore  
Printing and Publishing  
St. John's, Newfoundland



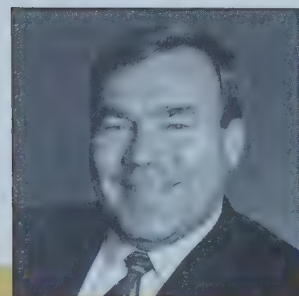
**Frank P. Howard**  
President  
Riverview Chev-Olds Ltd.  
Grand Falls-Windsor, Newfoundland



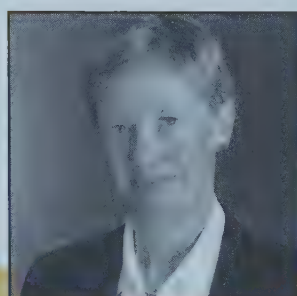
**Philip G. Hughes**  
President & Chief Executive Officer  
Newfoundland Power Inc.  
St. John's, Newfoundland



**James A. Lea**  
President & Chief Executive Officer  
Maritime Electric Company, Limited  
Charlottetown, Prince Edward Island



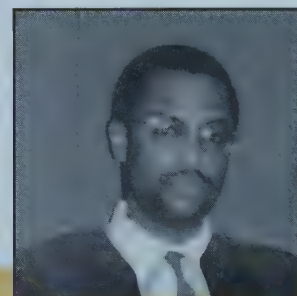
**H. Stanley Marshall**  
President & Chief Executive Officer  
Fortis Inc.  
St. John's, Newfoundland



**Dell Texmo**  
President  
Living Rooms Limited  
St. John's, Newfoundland



**Peter Woodward**  
Vice President, Operations  
Woodward Group of Companies  
Happy Valley-Goose Bay, Labrador



**Lynn R. Young**  
President & Chief Executive Officer  
Belize Electricity Limited  
Belize City, Belize



# Corporate Directory

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Philip G. Hughes	President & Chief Executive Officer
Nora M. Duke	Vice President, Customer & Corporate Services
John G. Evans	Vice President, Engineering & Energy Supply
Earl A. Ludlow	Vice President, Operations
Barry V. Perry	Vice President, Finance & Chief Financial Officer
Peter S. Alteen	Corporate Counsel & Secretary

## Investor Information

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### *Head Office*

55 Kenmount Road  
P.O. Box 8910  
St. John's, Newfoundland A1B 3P6  
Tel: (709) 737-5600  
Fax: (709) 737-2974

### *Market Trading*

Preference Shares Series A, B and D are  
traded on the Montreal Exchange.

### *Share Transfer Agent and Registrar*

Computershare Trust Company of Canada  
P.O. Box 1900, Station B  
Montreal, Quebec H3B 3L6

### *2000 Annual General Meeting*

Wednesday, May 2, 2001 at 8:00 a.m.  
Main Boardroom, 3rd Floor  
Newfoundland Power Inc.  
55 Kenmount Road  
St. John's, Newfoundland

### *Investor Information*

Peter S. Alteen  
Corporate Counsel & Secretary  
P.O. Box 8910  
St. John's, Newfoundland A1B 3P6  
Tel: (709) 737-5859  
e-mail: palteen@newfoundlandpower.com

### *Website*

[www.newfoundlandpower.com](http://www.newfoundlandpower.com)

### *Related Websites*

Fortis Inc.	<a href="http://www.fortis.ca">www.fortis.ca</a>
Fortis Properties	<a href="http://www.fortisproperties.com">www.fortisproperties.com</a>
Maritime Electric	<a href="http://www.maritimeelectric.com">www.maritimeelectric.com</a>
Canadian Niagara Power	<a href="http://www.cnpower.com">www.cnpower.com</a>
Belize Electricity	<a href="http://www.bel.com.bz">www.bel.com.bz</a>

### *E-mail*

[contactus@newfoundlandpower.com](mailto:contactus@newfoundlandpower.com)

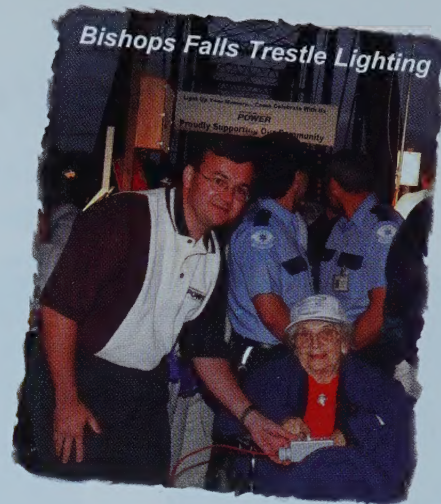
*Congratulations to  
Board Member  
Dell Texmo on Living  
Rooms receiving the  
2000 Eastern Canada  
Retailer of the Year Award.*



# Our 2000 Community Partners ...

Junior Achievement of  
Newfoundland & Labrador  
Memorial University of Newfoundland  
Canadian Cancer Society,  
Newfoundland & Labrador Division  
The Children's Wish Foundation  
Downtown Development Commission  
Newfoundland & Labrador Association  
of Fire Chiefs and Firefighters  
Atlantic Salmon Federation  
Coats for Kids  
Corner Brook Stream  
Development Corporation  
Corduroy Brook  
Enhancement Association  
Alzheimer Society of  
Newfoundland & Labrador  
Child Find Newfoundland & Labrador  
Newfoundland Lung Association  
Community Services Council  
Newfoundland Association for the Deaf  
Burin Peninsula Health Care Foundation  
The Canadian Red Cross Society  
Janeway Children's Hospital Foundation  
Newfoundland Symphony Orchestra  
Scouts Canada  
Boys and Girls Clubs of  
Newfoundland & Labrador  
College of the North Atlantic  
Newfoundland & Labrador  
Home Builders Association  
Cerebral Palsy Association  
of Newfoundland

Newfoundland Society for the  
Physically Disabled  
Newfoundland & Labrador  
Brain Injury Association  
Heart and Stroke Foundation of  
Newfoundland & Labrador  
Crimestoppers  
Mazol Shriner's Patient  
Transportation Fund  
St. John's Jaycees  
The Arthritis Society  
Eastern Newfoundland Science  
Fairs Council  
Forum for Young Canadians  
Newfoundland & Labrador  
School Chess Association  
Newfoundland Symphony  
Youth Choir  
Canadian National Institute  
for the Blind  
Thomas Howe Demonstration Forest  
Trans Canada Trail Foundation  
Canadian Liver Foundation  
Newfoundland & Labrador  
High School Athletic Federation  
Seniors Resource Center  
Habitat for Humanity  
Newfoundland & Labrador 2000  
Summer Games  
Vikings! 1000 Years  
Canadian Breast Cancer Foundation  
Canadian Diabetes Association  
Iris Kirby House  
Trinity Conception Health Foundation



Bishops Falls Trestle Lighting



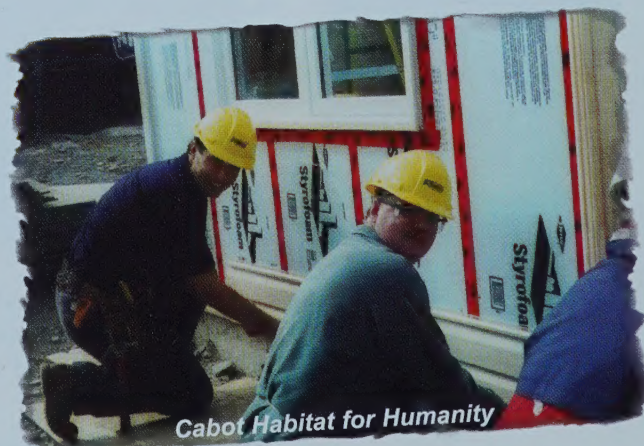
St. John's Maple Leafs Foundation



Vikings! 1000 Years



Corner Brook Leaf Recycling



Cabot Habitat for Humanity





P. O. Box 8910  
St. John's, Newfoundland  
A1B 3P6

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# Firefighting is Serious Business

Angela Legge  
Volunteer Firefighter  
Gander

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Your community depends on you.**

NEWFOUNDLAND  
**POWER**  
A FORTIS COMPANY

